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“July marked the 4th consecutive month of failing to meet the budget projection.”

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on August 20, 2014.

Summary

July continued the recent trend of disappointing General Fund revenue results. With revenues \$(34.5) million below forecast, July marked the 4th consecutive month of failing to meet the budget projection.

On a brighter note, additional collections slightly improved the FY 2014 year-end numbers. While these new FY 2014 estimates have a corresponding positive effect on future years, the state still faces significant shortfalls of \$(282) million in the current fiscal year and \$(765) million in FY 2016.

July General Fund revenue collections totaled \$662.2 million. Base revenues, which exclude one-time adjustments, were (0.7)% below July 2013.

The July revenue decline was due almost entirely to Corporate Income Tax collections, which posted a significant decline from the previous year. This tax category continues to negatively affect revenue growth, as the double digit decline posted in July continues a trend of 4 consecutive months where Corporate Income Tax collections fell below the prior year.

In comparison to revenue of \$662.2 million, July 2014 spending was \$2.44 billion which represents an increase of \$210.2 million from the prior year. The state incurs significant expenses during the month of July as it makes nearly \$1.0 billion of deferred payments to school districts.

The state's fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain

dedicated funds. The operating balance as of mid-August 2014 is \$1.0 billion. In addition, the state's Budget Stabilization Fund has a balance of \$455.6 million.

FY 2014 Ending Balance Update

Since the publication of the July *Monthly Fiscal Highlights*, the state has continued its book closing process. The updated FY 2014 results are better than previously reported – revenue collections were \$28 million greater and expenditures were \$(19) million lower than originally reported – a net improvement of \$47 million. Even with these improvements, the state still has a large shortfall.

- The enacted budget had assumed an FY 2014 ending balance of \$596 million. The June data reported in the July *Monthly Fiscal Highlights* translated into an expected FY 2014 ending balance of \$530 million. The most recent data would result in an FY 2014 ending balance of \$577 million.
- The July *Monthly Fiscal Highlights* had reported an FY 2015 projected shortfall of \$(366) million. The revised estimates would leave the state with an FY 2015 shortfall of \$(282) million.
- Given the most recent data, the FY 2016 shortfall is projected to be \$(765) million.
- The FY 2015 and FY 2016 estimates include the \$320 million annual cost relating to the K-12 litigation ruling, which requires a “reset” of the per pupil amount prospectively to adjust for foregone inflation in prior years. It does not include “back payments” for K-12 inflation payments which did not occur in prior years. (See the July *Monthly Fiscal Highlights* for more information).

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Summary (Continued)

In terms of future updates, the General Accounting Office will issue its first report on the estimated FY 2014 ending balance in mid-September. Following that, future year budget projections will be updated at the upcoming Finance Advisory Committee (FAC) meeting, which is scheduled for October 3rd.

Child Safety Staff Report

Pursuant to statute, the Department of Child Safety (DCS) has submitted the July report on its progress in hiring child safety staff.

Direct Line Child Safety Staff - The Legislature authorized DCS to hire 212 additional direct line child safety staff, consisting of 126 FTE Positions from a FY 2014 supplemental and 86 FTE Positions as part of the agency's FY 2015 appropriation. Since January, the number of direct line child safety staff (caseworkers, caseworkers in training, and hotline staff) has increased by 119 FTE Positions. The 119 newly filled FTE Positions are comprised of 7 case-carrying staff, 7 hotline staff, and 105 staff in training.

Of its 1,406 authorized caseworker positions, DCS filled 1,309 in July, or 93%. (*Filled caseworkers also appears as an economic indicator in Table 6.*)

Non-Direct Line Child Safety Staff - The Legislature also authorized DCS to hire 66 additional non-direct line child safety staff in FY 2014 and 174 additional non-direct line child safety staff in FY 2015, totaling to 240 additional staff. Since January, non-direct line child safety staff has grown by 84 to 1,145. In July, staffing increased by 36 FTE Positions.

Backlog of Non-Active Cases - One of the main purposes of the Special Session was to reduce the non-active case backlog. These cases have had no documentation entered into the DCS computer system for 60 days or more. The Special Session legislation requires DCS to report on the disposition of the backlog as of June 2, 2014.

At the June JLBC meeting, DCS reported that as of June 2, 2014 there were 13,024 backlog cases. As of July 31, 2014, there were 10,573 total backlog cases. The 10,573 figure includes backlog cases added post-June 2, so it does not specifically address the disposition of the 13,024 June 2 backlog cases.

Table 1

Change in the Department of Child Safety Staff since January 2014

	January	June	July	Change since January
Direct Line Staff				
Caseworkers	983	982	990	7
Hotline Staff ^{1/}	70	76	77	7
Staff in Training	137	225	242	105
Subtotal - Direct Line	1,190	1,283	1,309	119
Non-Direct Line Staff				
Asst. Program Managers	36	34	36	0
Unit Supervisors	168	193	203	35
Case Aides	211	232	243	32
OCWI	33	36	38	5
Other Non-Direct Line Staff	613	614	625 ^{2/}	12
Subtotal - Non-Direct Line	1,061	1,109	1,145	84
Grand Total	2,251	2,392	2,454	203

^{1/} Excludes 20 temporary staff.

^{2/} There are an estimated 180 unit secretaries included in this figure.

July Revenues

	FY 2015 <u>Collections</u>	Difference From <u>Budget Forecast</u>	Difference <u>From FY 2014</u>
July	\$ 662.2	\$ (34.5)	\$ (93.0)
Year-to-Date	\$ 662.2	\$ (34.5)	\$ (93.0)

Sales Tax collections of \$338.9 million were (0.1)% below July of last year and \$(19.7) million below the forecast for the month.

July's sales tax revenue decline was the first since June 2013. Year over year, collections have only decreased twice over the last 32 months. *Table 3* below includes the major categories of the state's sales tax, which together account for approximately 90% of total collections. As indicated in *Table 3*, the weakness among the major sales tax categories was broad based with the exception for restaurant and bar sales, which increased by 5.3% in July.

Retail sales, which comprise almost 50% of total collections, increased by 1.1% in July, which was the weakest performance since June 2012. Starting in the second quarter of 2014, collections from contracting activity have steadily declined. This trend was further reinforced in July when collections from contracting activity fell by (1.3)%.

	<u>July</u>	<u>YTD</u>
Retail	1.1%	1.1%
Contracting	(1.3)%	(1.3)%
Use	(10.2)%	(10.2)%
Restaurant & Bar	5.3%	5.3%
Utilities	0.8%	0.8%

Individual Income Tax net revenues were \$308.0 million in July, which was \$1.4 million above the prior year. Collections were \$(1.1) million below the forecast for the month.

As indicated in *Table 4*, withholding decreased by (1.0)% for the month. The decrease in collections is likely a timing issue related to the number of days in a month that the Department of Revenue processes withholding collections. This timing issue may also be the primary driver of low overall individual income tax collections for the month. The July withholding collections are \$(0.8) million below the forecast.

July estimated and final payments of \$21.4 million were 12.2% above last year, and were \$1.5 million above the forecast.

July Individual Income Tax refunds totaled \$(17.0) million – this compares to \$(19.0) million in July 2013 and a forecasted amount of \$(18.8) million.

	<u>July</u>	<u>YTD</u>
Withholding	(1.0)%	(1.0)%
Estimated + Final Payments	12.2%	12.2%
Refunds	(10.7)%	(10.7)%

Corporate Income Tax net collections were \$12.5 million in July, which was \$(12.6) million less than July of the prior year. This amount represents a decline of (50.0)% from July 2013. Collections for the month were \$(13.1) million below the forecast. This decline continues an on-going trend within Corporate Income Tax collections, however, there is insufficient timely data to gauge any potential reasons for the decline.

Highway User Revenue Fund (HURF) collections of \$106.0 million in July were up \$1.2 million, or 1.1% compared to July of last year. July collections were \$(0.9) million below forecast.

Table 5

General Fund Revenue: Change from Previous Year and January Forecast July 2014

	Current Month					FY 2015 YTD (One Months)				
	Actual July 2014	Change From July 2013		January Forecast		Actual July 2014	Change from July 2013		January Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$338,895,000	(\$323,789)	(0.1) %	(\$19,659,260)	(5.5) %	\$338,895,000	(\$323,789)	(0.1) %	(\$19,659,260)	(5.5) %
Income - Individual	307,979,480	1,394,619	0.5	(1,136,300)	(0.4)	307,979,480	1,394,619	0.5	(1,136,300)	(0.4)
- Corporate	12,528,493	(12,553,015)	(50.0)	(13,149,662)	(51.2)	12,528,493	(12,553,015)	(50.0)	(13,149,662)	(51.2)
Property	175,084	7,220	4.3	75,084	75.1	175,084	7,220	4.3	75,084	75.1
Luxury - Tobacco	1,710,000	(149,472)	(8.0)	0	0.0	1,710,000	(149,472)	(8.0)	0	0.0
- Liquor	3,670,000	15	0.0	0	0.0	3,670,000	15	0.0	0	0.0
Insurance Premium	41,695,140	5,090,533	13.9	510,295	1.2	41,695,140	5,090,533	13.9	510,295	1.2
Other Taxes	55,640	4,036	7.8	(79,360)	(58.8)	55,640	4,036	7.8	(79,360)	(58.8)
Sub-Total Taxes	\$706,708,837	(\$6,529,853)	(0.9) %	(\$33,439,203)	(4.5) %	\$706,708,837	(\$6,529,853)	(0.9) %	(\$33,439,203)	(4.5) %
Other Revenue										
Lottery	0	0	--	0	--	0	0	--	0	--
License, Fees and Permits	2,293,106	(76,189)	(3.2)	(206,894)	(8.3)	2,293,106	(76,189)	(3.2)	(206,894)	(8.3)
Interest	2,327	1,299	126.4	2,327	--	2,327	1,299	126.4	2,327	--
Sales and Services	610,902	(224,397)	(26.9)	(389,098)	(38.9)	610,902	(224,397)	(26.9)	(389,098)	(38.9)
Other Miscellaneous	3,023,241	2,288,487	311.5	2,023,241	202.3	3,023,241	2,288,487	311.5	2,023,241	202.3
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	309,047	(345,447)	(52.8)	(2,440,953)	(88.8)	309,047	(345,447)	(52.8)	(2,440,953)	(88.8)
Sub-Total Other Revenue	\$6,238,623	\$1,643,753	35.8 %	(\$1,011,377)	(14.0) %	\$6,238,623	\$1,643,753	35.8 %	(\$1,011,377)	(14.0) %
TOTAL BASE REVENUE	\$712,947,460	(\$4,886,100)	(0.7) %	(\$34,450,580)	(4.6) %	\$712,947,460	(\$4,886,100)	(0.7) %	(\$34,450,580)	(4.6) %
Other Adjustments										
Urban Revenue Sharing	(50,744,644)	(3,994,544)	8.5	(2)	0.0	(50,744,644)	(3,994,544)	8.5	(2)	0.0
One-Time Transfers	0	(81,541,148)	(100.0)	0	--	0	(81,541,148)	(100.0)	0	--
Sales Tax - 1¢ Increase	0	(2,611,367)	(100.0)	0	--	0	(2,611,367)	(100.0)	0	--
Sub-Total Other Adjustments	(50,744,644)	(88,147,059)	-- %	(2)	0.0 %	(50,744,644)	(88,147,059)	-- %	(2)	0.0 %
TOTAL GENERAL FUND REVENUE	\$662,202,816	(\$93,033,159)	(12.3) %	(\$34,450,582)	(4.9) %	\$662,202,816	(\$93,033,159)	(12.3) %	(\$34,450,582)	(4.9) %
Non-General Funds										
Highway User Revenue Fund	\$105,952,748	\$1,153,831	1.1 %	(\$942,147)	(0.9) %	\$105,952,748	\$1,153,831	1.1 %	(\$942,147)	(0.9) %

Monthly Indicators

NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis, the U.S. Real Gross Domestic Product (GDP) increased at an annual rate of 4.0% in the second quarter of 2014. This represents a strong turnaround from a (2.1)% decrease during the first quarter of the year. The growth was primarily due to increases in inventory investment, exports, consumption, nonresidential fixed investment, state and local government spending, and residential fixed investment. Some of the large increase in the second quarter likely represents a rebound following a harsh winter and other temporary issues in the first quarter.

The Conference Board's **U.S. Consumer Confidence Index** jumped 5.2% in July and 12.2% above a year earlier. The index now stands at 90.9, the highest reading since it reached 90.6 in December 2007 (also, the officially recognized beginning of the Great Recession). Recent gains were the result of widespread improvement in optimism about current and future economic conditions.

The Conference Board's **U.S. Leading Economic Index** increased by 0.3% in June and 6.3% since June 2013. This month marked the fifth consecutive monthly increase in the index. Of the index's 10 components, 6 improved or remained the same while 4 decreased. Improvements in financial market components led the increase, more than making up for another negative monthly contribution from building permits. Recent building permit decreases have been concentrated in multi-family units.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** rose 0.2% in June and 1.6% above June 2013 levels. The year-over-year growth rate slipped from 1.8% in May, but has still risen sharply from its rate of 0.8% in February. Purchases of durable goods lead the growth, increasing 0.4% during the month. Inflation as tracked by the PCEPI is the Federal Reserve Bank's preferred inflation measure for determining the pace at which monetary stimulus to the economy is reduced. The Bank generally aims to maintain annual inflation of 2% over the medium term. Since the start of 2014, the Bank has reduced its monthly purchases of bonds, from \$85 billion to \$25 billion. The Fed continues to issue short-term loans at nearly 0% interest rates.

Consumer prices, as measured by the U.S. **Consumer Price Index (CPI)**, increased 0.1% in July and 2.0% above July 2013 levels. Prices increased in shelter and food, but

were partially offset by decreases in energy prices. The decrease in the energy sub-index were spread throughout all major categories.

ARIZONA

The Federal Reserve Bank of Philadelphia's **coincident index** gauges current economic activity in each state. The index combines 4 indicators: employment, average hours worked in manufacturing, unemployment rate, and inflation-adjusted wages.

Arizona's coincident index increased by 0.2% compared to the prior month. Since June 2013, the Arizona index has increased by only 1.8%. Over the same time period, the U.S. coincident index which measures economic growth of the entire country increased by 3.2%. See *Appendix A – Tracking Arizona's Recovery* for additional historical information.

Housing

The total housing inventory in the Greater Phoenix area is 34.3% larger than July of last year, suggesting a slower market. This is also shown by homes being listed longer before selling. In July 2013, homes were on the market an average of 64 days. In July 2014, homes were on the market an average of 86 days.

In the Metropolitan Phoenix area, the **median price of a single family home** increased slightly to \$211,000 in June. The price is 11.1% higher than June of last year. For the country as a whole, the S&P/Case-Shiller 20-City Composite index was 9.3% higher than last year. In previous months, the metro-Phoenix rate of home price increase was considerably higher than the national average.

The housing construction recovery continues to be slow. The 12-month rolling sum of **single-family building permits** of 17,651 is only 0.8% larger than last year. Arizona's single-family sector is growing more slowly than the rest of the country. The comparable single-family permit growth rate for the entire U.S. is 6.1% above last year. See *Appendix A – Tracking Arizona's Recovery* for historical information.

On the other hand, the 12-month rolling sum of multi-family building permits has increased significantly since last year. The 8,498 **multi-family building permits** is 32.9% above 2013. Arizona's rate of increase is greater than the comparable multi-family permit growth for the U.S. as a whole which is 11.4% above 2013.

Monthly Indicators (Continued)

Employment

The U.S. Bureau of Labor Statistics releases estimates quarterly for a broader measure of labor underutilization called the **total unemployment rate**. Besides the “regularly” unemployed, the measure also includes persons who are available to work but stopped looking for a job (“discouraged workers”), and persons who had to settle for part-time employment (“underemployed workers”). The Arizona rate stood at 15.9% for the second quarter of 2014, which is down (0.2)% from the prior quarter but up 0.2% from the prior year.

The state's regular **unemployment rate** increased from 6.9% in June to 7.0% in July. This marked the second consecutive month with 0.1% increase of the jobless rate. Compared to the same month in the prior year, however, the state's unemployment rate is down by (1.1)%. The U.S. unemployment rate inched up in July as well, going from 6.1% to 6.2%.

According to the latest employment report released by the Department of Administration, the state shed (10,400) **Nonfarm** jobs in July compared to the prior month. Job losses are typical in July when schools are in recess. The net job loss this year, however, was significantly smaller than average loss of (26,400) jobs for July in the prior 10 years. The largest month-over-month job gains came from the following service-providing industries: trade, transportation and utilities (+2,600), professional and business services (+1,500), and education and health services (+1,100).

Compared to the same month in the prior year, the state added a net total of 59,400 nonfarm jobs in July, the largest year-over-year gain since December 2012. July's net increase of 2.4% marked the first time the state's employment growth rate exceeded 2% since January of this year.

It is still too early, however, to know whether July's higher job growth is sustainable. The job gains through the first 7 months of 2014 are almost exclusively coming from the private service-providing sectors of the Arizona economy.

Employment growth in the goods-producing industries, which primarily consist of the manufacturing and construction sectors, is essentially flat for the comparable period. Moreover, year-over-year job growth in the goods-producing sectors has declined for 7 consecutive months. It is difficult to envision a return to a sustained growth rate in excess of 2% without the job losses in manufacturing and construction over the last few months being reversed.

In July, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.2 hours. This workload is (0.9)% below that seen during July 2013. The **Average Hourly Earnings** received by these private sector workers was \$22.94, which is (0.3)% below the average in July 2013.

State Agency Data

At the beginning of August, the total **AHCCCS** caseload was 1.6 million members. Since the federal health care expansion in January, the overall AHCCCS population has grown by 294,397 members. The enacted budget assumed the AHCCCS population would grow by 202,520 member through August 2014.

The Proposition 204 childless adult category accounts for much of this growth above forecast. Since January, childless adults have been again eligible for coverage. In August the number of childless adults increased by 13,310, or 5.7% above July. Since December, the childless adult population has increased by 181,018 to reach a level of 248,788. This is compared to a budgeted level of 163,108. The state share of the Proposition 204 cost is paid through a hospital assessment and not the General Fund.

The state also opted to expand adult Medicaid coverage to 133% of FPL. The 100% - 133% enrollment increased by 2,721 in July and now totals 27,281 individuals enrolled since January 2014 (versus a budgeted caseload of 32,321). The federal government is currently paying 100% of this cost.

The traditional acute care AHCCCS population of lower income children and their parents grew by 16,607 in August to a level of 970,897 (versus a budgeted caseload of 969,384). The August level represents an increase of 1.7% since last month and 9.2% since last year.

In the last 12 months, there were 44,820 **reports of child maltreatment**, as reported by the Department of Child Safety. This level increased by 1.7% over the prior year. For May 2014, the department reports 16,468 **children in out-of-home care**, an increase of 2.2% from the prior month. Out-of-home children in May 2014 were up by 12.5% compared to the same month in the prior year.

For July 2014, the inmate population of the **Arizona Department of Corrections (ADC)** increased to 41,926. The inmate population increased 0.4% since June 2014. Since July 2013, the inmate population increased 3.2%.

There were 28,781 **TANF recipients** in the state in June, representing a (2.1)% monthly caseloads decrease from May. The year-over-year number of TANF recipients has declined by (19.9)%. The statutory lifetime limit on cash assistance is 24 months. The decline in TANF enrollment leaves program participation well below the budgeted level of 36,263 recipients.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In June, 1.0 million people received food stamp assistance in the state, representing a 0.4% increase over May caseloads. Compared to June caseloads last year, the level of food stamp participation has declined by (5.3)%.

Table 6

MONTHLY INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
<u>Employment</u>				
- Regular Unemployment Rate	July	7.0%	0.1%	(1.1)%
- Total Unemployment Rate (discouraged/underemployed)	2 nd Q 2014	15.9%	(0.2)%	0.2%
- Initial Unemployment Insurance Claims	June	23,093	5.0%	4.1%
- Unemployment Insurance Recipients	June	42,214	7.3%	1.8%
- Non-Farm Employment - Total	July	2.51 million	(0.4)%	2.4%
Manufacturing	July	156,500	(0.1)%	0.3%
Construction	July	120,000	(0.9)%	(4.9)%
- Average Weekly Hours, Private Sector	July	34.2	(2.0)%	(0.9)%
- Average Hourly Earnings, Private Sector	July	\$22.94	0.2%	(0.3)%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	May	\$859.7 million	(10.1)%	5.5%
Furniture/Home Furnishings	May	\$297.0 million	(9.5)%	5.3%
Building Material/Lawn & Garden	May	\$351.4 million	7.2%	46.3%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	June	17,651	(0.1)%	0.8%
Multi-family	June	8,498	5.1%	32.9%
- Greater Phoenix Home Sales				
Single-Family	June	7,624	(3.9)%	(11.3)%
Townhouse/Condominium	June	1,169	(8.6)%	(7.3)%
- Greater Phoenix Median Home Price				
Single-Family	June	\$211,000	2.9%	11.1%
Townhouse/Condominium	June	\$128,000	0.8%	2.4%
- Phoenix S&P/C Home Price Index (2000 = 100)	May	146.01	0.4%	8.2%
- Maricopa Pending Foreclosures	July	6,351	(1.9)%	(36.6)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	July	26,928	(2.8)%	34.3%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	May	3.59 million	0.0%	3.4%
- National Park Visitors	April	965,980	2.6%	(7.8)%
- State Park Visitors	March	304,575	27.8%	(2.1)%
- Revenue Per Available Hotel Room	June	\$51.64	(17.7)%	5.2%
<u>General Measures</u>				
- Arizona Consumer Confidence Index (1985 = 100)	3 rd Q 2014	71.6	(4.7)%	(1.2)%
- Arizona Coincident Index (July 1992 = 100)	June	187.47	0.2%	1.8%
- Arizona Leading Index -- 6 month projected growth	June	1.6%	0.3%	(1.0)%
- Arizona Personal Income	1 st Q 2014	\$249.0 billion	3.6%	4.0%
- Arizona Population	July 2013	6.63 million	N/A	1.2%
- State Debt Rating				
Standards & Poor's/Moody's	Dec 09/July 10	AA- / Aa3	N/A	N/A
Outlook	Nov 13	Positive	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	August	1,552,539	2.6%	21.7%
Acute Care Traditional		970,897	1.7%	9.2%
Prop 204 Childless Adults		248,788	5.7%	240.2%
Other Prop 204		163,775	2.6%	11.0%
Adult Expansion		27,281	11.1%	-
Kids Care I		1,990	(1.1)%	(71.5)%
Kids Care II		0	0.0%	(100.0)%
Long-Term Care – Elderly & DD		55,573	0.2%	3.2%
Emergency Services		84,235	2.4%	24.2%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	May 2014	44,820	(5.9)%	1.7%
DCS Out-of-Home Children	May	16,468	2.2%	12.5%
Filled Caseworkers (1,406 Budgeted)	July	1,309	26	122
- ADC Inmate Growth	June	41,926	0.4%	3.2%
- Department of Economic Security				
- TANF Recipients	June	28,781	(2.1)%	(19.9)%
- SNAP (Food Stamps) Recipients	June	1,047,897	0.4%	(5.3)%
- Judiciary Probation Caseload				
Non-Maricopa	May	17,499	(42)	(249)
Maricopa County	May	25,012	(348)	(316)
United States				
- Gross Domestic Product (Chained 2009 dollars, SAAR)	2 nd Q, 2014	\$16.0 trillion	2.4%	4.0%
- Consumer Confidence Index (1985 = 100)	July	90.9	5.2%	12.2%
- Leading Indicators Index (2004 = 100)	June	102.2	0.3%	6.3%
- Consumer Price Index, SA (1982-84 = 100)	July	237.9	0.1%	2.0%
- Personal Consumption Price Index (2009 = 100)	June	109.0	0.2%	1.6%

Summary of Recent Agency Reports

AHCCCS – Report on the FY 2014 Hospital Assessment – Pursuant to A.R.S. § 36-2901.08, the Arizona Health Care Cost Containment System (AHCCCS) is required to establish an assessment on hospital revenue, discharges, or bed days for the purpose of funding the state match portion of the Medicaid expansion (adults from 100%-133% of the Federal Poverty Level) and the entire Proposition 204 population beginning January 1, 2014. In addition, a FY 2014 General Appropriation Act footnote requires AHCCCS to report on the amount each hospital contributed to the assessment and the amount of estimated payments each hospital received from coverage funded by the assessment. This is the first report on the hospital assessment.

The assessment is calculated by multiplying the number of discharges reported on each hospital's 2011 Medicare Cost Report by the hospital's per-inpatient discharge rate. In FY 2014, the average discharge rate for all providers was approximately \$93. From January 1, 2014 to June 30, 2014, AHCCCS collected \$75.2 million in assessments from 72 hospitals. *Table 1* below lists how much each peer hospital contributed since the assessment was enacted.

Hospital Provider Peer Group (# of hospitals) ^{1/}	FY 2014	
	Contributions	% Of Total
Urban Acute Providers (28)	\$ 45,682,900	60.8%
Critical Access Hospital (CAH) Providers (10)	916,200	1.2%
Non-CAH Rural Acute Providers (14)	9,083,700	12.1%
Long-Term Care Provider (8)	89,000	0.1%
Large Psychiatric Provider (4)	509,000	0.7%
Pediatric-Intensive General Acute Hospitals (2)	5,723,400	7.6%
Medium Pediatric Intensive General Acute Hospitals (6)	<u>13,189,000</u>	<u>17.5%</u>
Total	\$ 75,193,200	100.0%

^{1/} In FY 2014, 72 hospitals participated in the hospital assessment.

Due to reporting lags between providers and AHCCCS health plan contractors, payments can take upwards of 3-6 months before paid claims appear in AHCCCS' database. Because of this lag, AHCCCS will report the FY 2014 estimated payments each hospital received from coverage funded by the assessment by December 31, 2014.

(Andrew Smith)

AHCCCS – Report on Health Insurance Exchange Interaction and Eligibility Modifications – Pursuant to an FY 2014 General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) is required to report on the progress made on their automation interaction with the Federally-Facilitated Marketplace (health insurance exchange) and eligibility modifications as part of the Affordable Care Act (ACA).

This is the fourth quarterly report regarding AHCCCS' enrollment system, known as Health-e-Arizona Plus (HEAplus). As of August 11, 2014, AHCCCS reports that it has met all requirements to obtain enhanced federal

funding for their eligibility requirements. In addition, AHCCCS reports that as of July 28, 2014, it received 148,942 applicants from the health insurance exchange and that the applicants were processed as follows:

- 51,540 applicants, or 34.6%, were approved for AHCCCS coverage;
- 28,417 applicants, or 19.1%, were denied coverage;
- 43,795 applicants, or 29.4%, were previously enrolled in AHCCCS;
- 18,170 applicants, or 12.2%, were duplicates and were not processed; and
- 7,020 applicants, or 4.7%, are pending receipt due to additional information from the applicants.

AHCCCS further reports that they continue to refine IT processes and are waiting on federal government coordination before completing remaining IT changes. To date, a couple known issues include:

1. The integration of the security check for state workers, community assisters, and state vendors has not yet been integrated with the federal exchange since the federal exchange has not made testing of the integration available. During the interim, AHCCCS and the Department of Economic Security are using an alternative process.
2. The federal Centers for Medicare and Medicaid Services (CMS) has not developed a process for the coordination of decision notices or eligibility appeals between the Federally-Facilitated Marketplace (FFM) and AHCCCS. Implementation is expected in 2015.
(Andrew Smith)

Arizona Department of Administration – Report on the Financial Status of the Special Employee Insurance Trust Fund – Pursuant to A.R.S. § 38-654G, the Arizona Department of Administration (ADOA) is submitting their required annual actuarial report on the financial status of the Health Insurance Trust Fund (HITF). The actuarial assumptions used to develop HITF projections include healthcare trends (cost, utilization, and severity of services), enrollment trends, and revenue projections including legislative fund transfers. The plan had an inflation and utilization trend of 2.7% in plan year (PY) 2013. ADOA reported that the plan is actuarial sound for PY 2013 and 2014. Compared to the FY 2013 balance of \$324.6 million, the projected HITIF balance is \$327.1 million at the end of FY 2014 and \$280.0 million at the end of FY 2015. ADOA's reserve strategy consists of fully funding incurred but not reported (IBNR) liabilities and funding a contingency reserve of approximately 15% of annual expenses. Although there is no industry standard for public employee plans, ADOA's reserve strategy is consistent with other state's practices.
(Rebecca Perrera)

Summary of Recent Agency Reports (Continued)

Arizona Department of Administration – Report on State Expenditures for the National Public Safety Broadband Network Initiative – Following September 11, 2001, the National 9/11 Commission recommended the establishment of a nationwide, interoperable public safety communications network to provide solutions to communications challenges facing first responders. In response, Congress passed legislation in 2012 creating the National Public Safety Broadband Network (NPSBN) initiative in an effort to build a nationwide, standards-based, high-speed data network by reserving a part of the electromagnetic spectrum specifically for public safety, the 700 MHz broadband spectrum, or the “D Block.”

More than \$7 billion has been allocated for the NPSBN initiative, with a majority of funding being raised through the sale of rights to transmit signals over specific bands of the electromagnetic spectrum that were surrendered by television broadcasters during the transition from analog to digital television. Part of the \$7 billion allocated for this initiative includes a grant program for state and local governments, the State and Local Implementation Grant Program (SLIGP). Approximately \$118 million in formula-based grants were available to assist regional, state, local, and tribal government entities in preparing for the implementation of the NPSBN initiative.

Arizona was awarded \$2.9 million through the SLIGP formula in August 2013. The \$2.9 million grant will be spent in 2 phases, each approximately \$1.5 million. The first phase will be dedicated to education and outreach, while the second phase will be devoted to gathering relevant data. One requirement of the grant is that Arizona and local governments additionally contribute at least \$745,200 in in-kind contributions to the project.

At its October 29, 2013 meeting, the JLBC required ADOA to provide quarterly reports on the progress of SLIGP expenditures. ADOA’s grant budget for FY 2014 was \$616,500, or 21% of the entire grant award. However, the actual spending was significantly lower than the budget, at \$227,000. Approximately \$2.4 million remains available from the grant. Funds were used to complete county level outreach. Specifically, ADOA conducted 14 four-hour sessions covering all 15 counties with 322 attendees representing 220 local, county, and state agencies. In addition, ADOA conducted briefings with 5 regional wireless cooperatives and participated in 18 public safety and public service events and conferences. For FY 2015, AZNET plans to continue its education and outreach efforts including briefing local jurisdictions, developing and implementing a tribal version of the county briefings, and developing and implementing a non-public safety stakeholder program. (Rebecca Perrera)

Arizona Department of Administration – Report on Private Leases – Pursuant to A.R.S. § 41-792D, the Arizona Department of Administration (ADOA) is biennially required to submit a report on all approved office leases

that exceeded the Lease Cost Review Board’s (LCRB) estimated average cost per square foot for privately-owned office space during the prior 2 years. ADOA approved 54 leases in FY 2013 and 50 leases in FY 2014. Eight of the leases approved in FY 2014 exceeded the LCRB’s \$19.40 average cost per square foot for privately-leased space. (Rebecca Perrera)

Department of Child Safety (DCS) – Quarterly Foster Care Medicaid Report - Pursuant to Laws 2013, Chapter 220, DCS is required to report on foster care and Medicaid eligibility. These reports are required quarterly until December 31, 2015.

During the fourth quarter of FY 2014, DCS reports the following trends on foster care and Medicaid eligibility:

1. There were 15,141 children eligible for Medicaid in foster care at the end of the fourth quarter, up from 14,391 at the end of the third quarter.
2. The percentage of foster care children eligible for Medicaid dropped slightly from 98% at the end of the third quarter to 97% at the end of the fourth quarter.
3. The amount of non-Medicaid behavioral health group home expenditures used by DCS to supplement Medicaid behavioral health placement services was \$1.5 million in the fourth quarter compared to \$2.2 million in the third quarter. The fourth quarter expenditure amount is likely understated because of the year-end closing process.
4. The amount of non-Medicaid behavioral health evaluation/counseling expenditures used by DCS to supplement Medicaid behavioral health services declined from \$140,400 in the third quarter to \$82,500 in the fourth quarter. The fourth quarter expenditure amount is likely understated because of the year-end closing process. (Ben Beutler)

Arizona Community Colleges – Annual Report – Pursuant to A.R.S. § 15-1427, the Arizona Community Colleges are required to report by December 1 of each year on their progress during the previous year. They have just submitted their FY 2013 report, which includes the following summary information on the state system:

- 335,755 students (headcount) were enrolled for credit, resulting in a Full-Time Student Equivalent count of 133,988.
 - 90% of enrolled students resided within the district, while 10% did not reside within the district.
 - Total number of instructors employed was 11,173, of which 2,616 (23%) were full-time and 8,557 (77%) were part-time.
 - Total operating revenues were \$1.6 billion (this amount excludes bond proceeds and fund balance which total \$272.5 million).
 - Total expenditures were \$1.8 billion.
- (Tom Ritland)

Summary of Recent Agency Reports (Continued)

Department of Health Services – Quarterly Report on Individuals in the Comprehensive Medical and Dental Program (CMDP) - Pursuant to Laws 2013, Chapter 220, the Department of Health Services (DHS) is required to report on the financial and program accountability trends of CMDP, the foster care medical program. This report is required quarterly until December 31, 2015.

DHS administers behavioral health services for CMDP clients. In its third quarter FY 2014 report, DHS reports that 56%, or 9,954 of 17,928 children in CMDP, received behavioral health services, which represents a 5% decline from 61% in the second quarter of FY 2014. The service utilization level ranged between 52% and 80% across the 6 geographic service areas, with Maricopa County and Pima County service areas experiencing the lowest rate of usage. From July 1, 2013 to March 31, 2014, almost 72% of all children in CMDP had received behavioral health services.

The most widely used services by CMDP members during the third quarter of FY 2014 were support services (including case management), treatment services, and rehabilitation services. Of all members served, 97% used support services, 75% used treatment services, and 15% received rehabilitation services. The most expensive service per capita was residential services. DHS states that 84 CMDP members received nearly \$900,000 in residential services during the third quarter (\$10,373 per capita). Residential services consist of treatment at facilities that provide 24-hour supervision from an on-site or on-call behavioral health professional for CMDP members who do not require on-site medical services or who need protective oversight. (Matt Gress)

Public Programs Eligibility Report - As enacted in the 2006 election, Proposition 300 limits participation in certain state programs to citizens, legal residents, or other persons lawfully present in the United States, and requires semi-annual reports to the Joint Legislative Budget Committee. Below is a summary of the reports:

Universities - At the 3 universities, 135,909 students registered for the spring 2014 semester. Of the total students registered, the universities were able to verify the legal immigration status of 126,595 students. Additionally, the universities reported that 11,910 of these students did not require verification because they have either not requested or received in-state tuition or state supported financial aid. The universities reported that a total of 21 students were unverifiable due to their inability to provide the requisite documentation.

Department of Economic Security - The department reported that 6,193 applications were received for child care assistance during the reporting period of December 1, 2013 to May 31, 2014. Of this number, 8 were denied because criteria for citizenship or legal residency were not met.

Community Colleges - Statewide, the Community Colleges reported a total of 220,275 students classified as in-state for the spring 2014 semester. They reported 370 students who were not entitled to be classified as in-state because of a lack of lawful immigration status. Additionally, 87,805 students applied for financial aid. Of those who applied, the community colleges reported that 62 were not entitled to any aid because they were not lawfully present in the United States.

Department of Education - The department reported that 10,126 people applied for instruction in Arizona Adult Education during the reporting period of December 1, 2013 to June 1, 2014. Of this amount, 442 were denied instruction because they failed to provide evidence of citizenship or legal residence in the United States. The Arizona Adult Education program is funded with a combination of state and Federal Funds. (Krista MacGahan)

Department of Public Safety – Quarterly Report on the GIITEM Fund - Pursuant to A.R.S. § 41-1724, the Department of Public Safety (DPS) is required to report quarterly on Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Fund expenditures. In FY 2014, the GIITEM Fund was appropriated \$2.6 million in General Fund monies for grants to local law enforcement agencies to help with border security. During the fourth quarter of FY 2014 DPS expended \$213,000 in GIITEM Immigration Enforcement Grant monies bringing the year-to-date total to \$2.2 million. These monies were distributed to the Pinal County Sheriff's Office, per statute, and to several other local grant recipients to support operational costs.

Additionally, the GIITEM Border Security and Law Enforcement Subaccount received \$647,900 in criminal fine and fee revenues in the fourth quarter of FY 2014 bringing the year-to-date total to \$2.4 million. DPS expended \$1.2 million in the fourth quarter bringing the year-to-date total to \$2.2 million. The monies were granted to 17 local law enforcement agencies and the Arizona Department of Corrections for border security purposes. (Eric Billings)

July Spending

July 2014 General Fund spending of \$2.44 billion was \$210.2 million greater than July 2013. The significant amount of July expenditures relate to timing issues in the Department of Education and the Department of Economic Security.

(See Tables 8 & 9).

- Department of Education spent \$1.2 billion in July 2014, as the Department distributed \$1.0 billion of state aid payments deferred from the prior fiscal year as part of the state's on-going K-12 rollover.
- Department of Economic Security/Department of Child Safety expenditures were \$478.1 million in July, as the Department of Economic Security made transfers for the Medicaid state match for the developmentally disabled program.

	<u>July 14</u>	Change From <u>July 13</u>	<u>Year-to-Date</u>	YTD Change <u>from FY 14</u>
Agency				
AHCCCS	124.9	14.1	124.9	14.1
Corrections	82.3	8.2	82.3	8.2
Economic Security/Chlld Safety	478.1	66.2	478.1	66.2
Education	1,246.3	88.0	1,246.3	88.0
Health Services	119.2	14.8	119.2	14.8
Public Safety	23.0	14.5	23.0	14.5
School Facilities Board	150.8	(1.5)	150.8	(1.5)
Univ ersities	44.6	4.6	44.6	4.6
Leaseback Debt Service	84.1	0.0	84.1	0.0
Other	<u>84.1</u>	<u>1.3</u>	<u>84.1</u>	<u>1.3</u>
Total	2,437.4	210.2	2,437.4	210.2

General Fund Spending				
(\$ in Thousands)				
Agency	July 14	Change from July 13	Year-to-Date	YTD Change from FY 14
Dept. of Admin./Automation Projects Fund	522.2	(1,720.1)	522.2	(1,720.1)
ADOA – Sale/Leaseback Debt Service	84,123.7	3.9	84,123.7	3.9
Office of Administrative Hearings	65.0	3.4	65.0	3.4
Department of Agriculture	698.9	94.5	698.9	94.5
AHCCCS	124,900.7	14,118.9	124,900.7	14,118.9
Attorney General	2,320.1	805.9	2,320.1	805.9
State Board of Charter Schools	44.8	(11.6)	44.8	(11.6)
AZ Commerce Authority	2,625.0	-	2,625.0	-
Community Colleges	16,521.5	617.7	16,521.5	617.7
Corporation Commission	43.2	1.3	43.2	1.3
Department of Corrections	82,266.0	8,181.6	82,266.0	8,181.6
AZ State Schools for the Deaf & Blind	1,667.2	(66.1)	1,667.2	(66.1)
Dept. of Econ. Security/Dept. of Child Safety	478,118.7	66,216.3	478,118.7	66,216.3
Department of Education	1,246,254.4	87,971.1	1,246,254.4	87,971.1
DEMA	793.0	30.9	793.0	30.9
Office of Equal Opportunity	13.9	(3.8)	13.9	(3.8)
State Board of Equalization	110.7	1.0	110.7	1.0
Board of Executive Clemency	66.1	8.6	66.1	8.6
Department of Financial Institutions	182.9	(187.5)	182.9	(187.5)
Department of Fire, Bldg and Life Safety	83.7	(42.1)	83.7	(42.1)
State Forester	350.4	100.9	350.4	100.9
Arizona Geological Survey	58.6	(5.3)	58.6	(5.3)
Governor/OSPB	600.6	(41.6)	600.6	(41.6)
Department of Health Services	119,154.2	14,764.1	119,154.2	14,764.1
Arizona Historical Society	300.5	(6.0)	300.5	(6.0)
Prescott Historical Society of AZ	67.6	(0.4)	67.6	(0.4)
Independent Redistricting Comm.	34.7	(136.4)	34.7	(136.4)
Commission of Indian Affairs	5.1	1.0	5.1	1.0
Department of Insurance	366.7	(27.6)	366.7	(27.6)
Judiciary				
Supreme/Superior Court	14,736.7	(1,326.4)	14,736.7	(1,326.4)
Court of Appeals	1,027.8	15.6	1,027.8	15.6
Department of Juvenile Corrections	3,338.9	164.6	3,338.9	164.6

Table 9 (Continued)

Agency	July 14	Change from July 13	Year-to-Date	YTD Change from FY 14
State Land Department	792.0	26.8	792.0	26.8
Legislature				
Auditor General	1,456.0	110.7	1,456.0	110.7
House of Representatives	961.6	(8.2)	961.6	(8.2)
Joint Legislative Budget Comm.	171.2	21.6	171.2	21.6
Legislative Council	965.8	271.0	965.8	271.0
Senate	658.4	15.5	658.4	15.5
Mine Inspector	106.5	10.1	106.5	10.1
Nav. Streams & Adjudication	9.1	0.3	9.1	0.3
Phoenix Convention Center	20,449.0	-	20,449.0	-
Pioneers' Home	414.6	46.2	414.6	46.2
Comm. for Postsecondary Ed.	99.0	99.0	99.0	99.0
Department of Public Safety	22,953.9	14,549.3	22,953.9	14,549.3
Arizona Department of Racing	1,779.5	-	1,779.5	-
Radiation Regulatory Agency	254.9	(1.7)	254.9	(1.7)
Real Estate Department	168.5	10.1	168.5	10.1
Department of Revenue	4,008.4	(556.4)	4,008.4	(556.4)
School Facilities Board	150,815.3	(1,496.8)	150,815.3	(1,496.8)
Secretary of State	653.1	(54.6)	653.1	(54.6)
Tax Appeals Board	16.9	(0.8)	16.9	(0.8)
Office of Tourism	3,185.9	3,021.1	3,185.9	3,021.1
Universities				
Board of Regents	268.2	175.5	268.2	175.5
Arizona State University	20,396.7	2,008.0	20,396.7	2,008.0
Northern Arizona University	7,315.5	1,244.7	7,315.5	1,244.7
University of Arizona	16,666.4	1,204.6	16,666.4	1,204.6
Department of Veteran Services	422.1	(42.2)	422.1	(42.2)
Department of Water Resources	850.2	14.2	850.2	14.2
Department of Weights & Measures	67.4	(18.4)	67.4	(18.4)
Other	4.0	4.0	4.0	4.0
Total	2,437,373.4	210,180.1	2,437,373.4	210,180.1

Tracking Arizona's Recovery

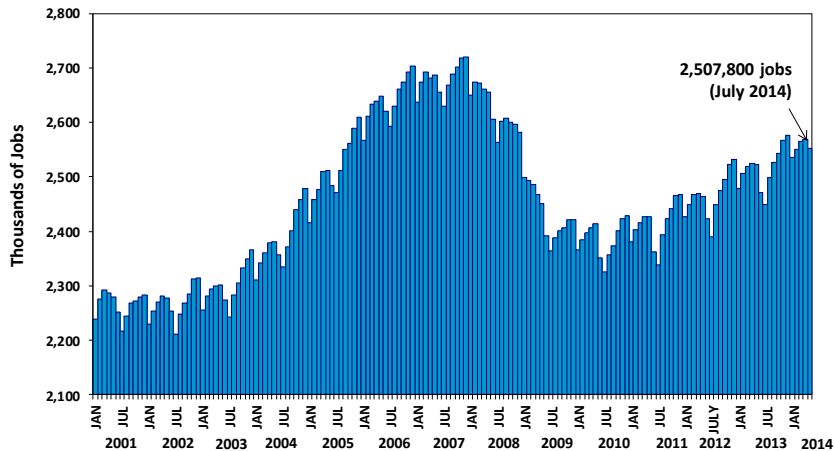
August 2014
Appendix A

Slide:

- 2.....Total Non-Farm Employment
- 3.....Average Hourly Earnings – Private Sector
- 4.....Initial Claims for Unemployment Insurance
- 5.....State Sales Tax Collections – Retail Category
- 6.....State Sales Tax Collections – Contracting Category
- 7.....Residential Building Permits
- 8.....Economic Activity Index

JLBC

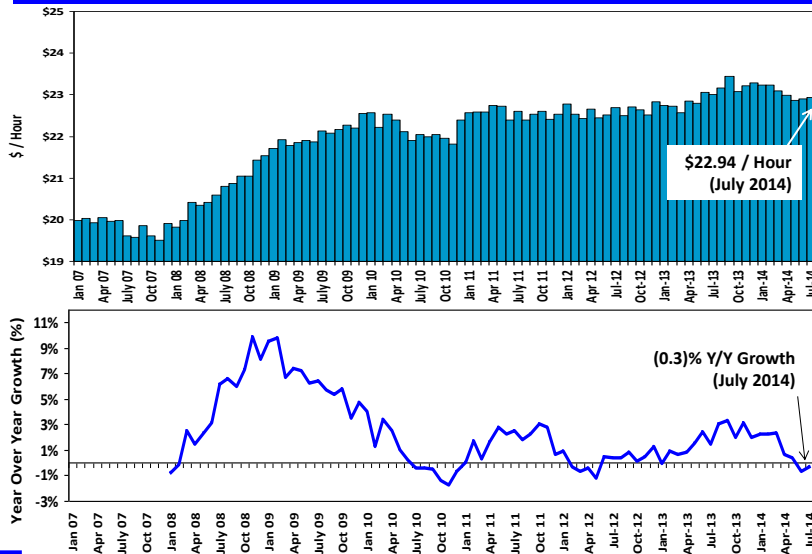
Total Non-Farm Employment



JLBC

Not seasonally adjusted

Average Hourly Earnings – Private Sector

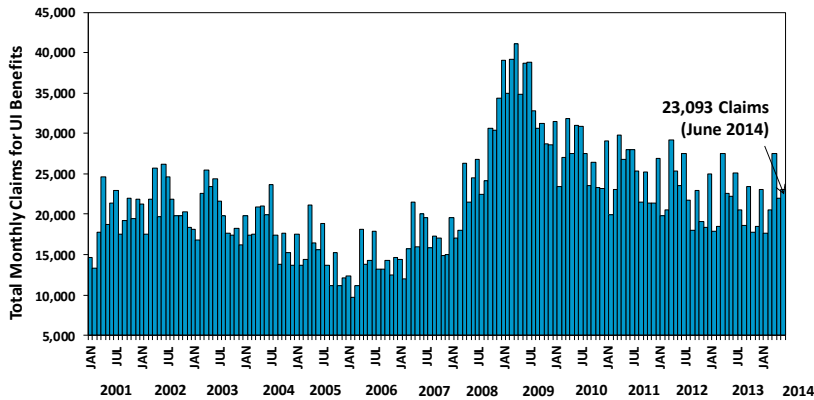


JLBC

Excludes temporary 1 ¢ sales tax

3

Initial Claims for Unemployment Insurance

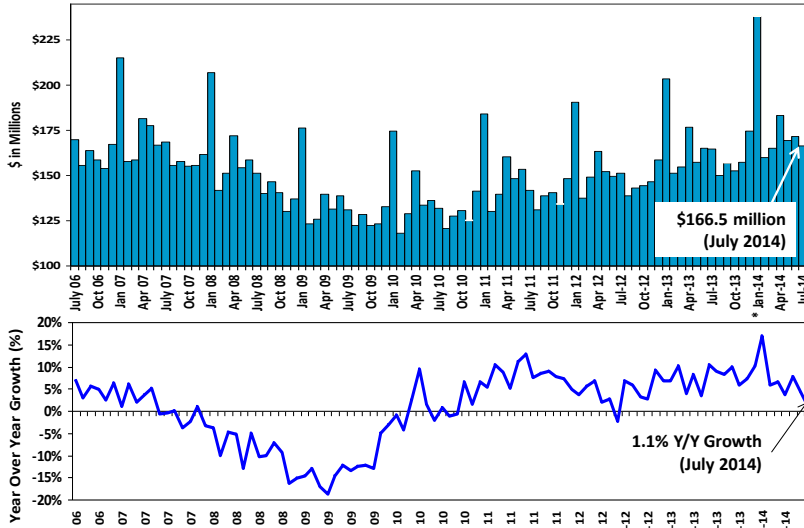


JLBC

Not seasonally adjusted

4

State Sales Tax Collections – Retail Category



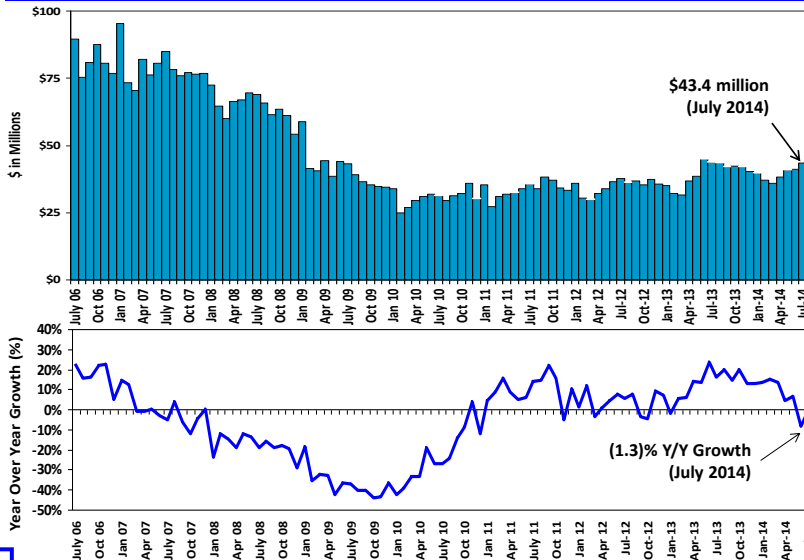
JLBC

Excludes temporary 1 ¢ sales tax

* January 2014 collections reflect the reclassification of approximately \$40 million of revenue from other tax categories to retail collections

5

State Sales Tax Collections – Contracting Category



JLBC

Excludes temporary 1 ¢ sales tax

6

